

# **City and County of Honolulu**

## **Sewer Fund**

**Financial Statements**

**June 30, 2001**

PricewaterhouseCoopers LLP  
First Hawaiian Center  
999 Bishop St., Suite 1900  
Honolulu HI 96813  
Telephone (808) 531 3400  
Facsimile (808) 531 3433

## Report of Independent Accountants

To the Chair and Members of the City Council  
City and County of Honolulu  
Honolulu, Hawaii

We have audited the accompanying balance sheet of the Sewer Fund, City and County of Honolulu ("Sewer Fund"), as of June 30, 2001, and the related statements of revenues, expenses and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Sewer Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient information to support the Sewer Fund's inventories of materials and supplies of \$11,983,180 and related materials and supplies expense of \$12,655,949 as of and for the year ended June 30, 2001, which are described in Note 1 to the financial statements.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the carrying value of the inventories of materials and supplies and related expense, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Fund as of June 30, 2001, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, on July 1, 2000, the Sewer Fund changed its method of accounting for contributed capital and has restated the prior year financial statements.

As discussed in Note 1 to the financial statements, the financial statements of the Sewer Fund are intended to present the financial position and results of operations and cash flows of only that portion of the funds of the City and County of Honolulu that is attributable to the transactions of the Sewer Fund.

*PricewaterhouseCoopers LLP*

Honolulu, Hawaii  
December 26, 2001

# City and County of Honolulu

## Sewer Fund

Balance Sheet  
June 30, 2001

<b>Assets</b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 33,973,174
Investments	65,276,329
Receivables –	
Accounts (net of allowance for uncollectible accounts of \$302,396)	16,405,562
Interest	682,101
Due from other City funds	5,198,192
Inventories of materials and supplies	11,983,180
Total current assets	<u>133,518,538</u>
<b>Property, Plant and Equipment, Net</b>	<u>979,257,955</u>
	<u><u>\$ 1,112,776,493</u></u>
<b>Liabilities and Retained Earnings</b>	
<b>Current Liabilities:</b>	
Checks payable	\$ 3,170,657
Accounts payable	7,333,903
Notes payable	4,171,384
Bonds payable	10,948,120
Interest payable	8,226,645
Other current liabilities	357,391
Total current liabilities	<u>34,208,100</u>
<b>Notes Payable</b>	64,658,592
<b>General Obligation Bonds Payable</b>	77,418,211
<b>Revenue Bonds Payable</b>	318,442,890
<b>Deferred Credits and Other Liabilities</b>	5,599,790
Total liabilities	<u>500,327,583</u>
<b>Commitments and Contingencies</b>	
<b>Retained Earnings:</b>	
Reserved for debt service	39,561,845
Unreserved	572,887,065
Total retained earnings	<u>612,448,910</u>
	<u><u>\$ 1,112,776,493</u></u>

The accompanying notes are an integral part of the financial statements.

# City and County of Honolulu

## Sewer Fund

### Statement of Revenues, Expenses and Retained Earnings For the Year Ended June 30, 2001

<b>Operating Revenues:</b>	
Sewer service charges	\$ 111,554,998
Other revenue	1,485,629
Total operating revenues	<u>113,040,627</u>
<b>Operating Expenses:</b>	
Administrative and general	30,528,575
Depreciation	22,024,583
Materials and supplies	12,655,949
Fringe benefits	7,613,426
Utilities	7,086,589
Contractual services	6,806,210
Fuel and lubricants	1,892,963
Maintenance	389,428
Total operating expenses	<u>88,997,723</u>
Operating income	24,042,904
<b>Nonoperating Revenue (Expense):</b>	
Interest revenue	7,321,680
Interest expense	(17,677,304)
Other	(206,519)
	<u>(10,562,143)</u>
Income before operating transfers and contributed capital	13,480,761
Operating Transfers Out	(6,120,000)
Contributed Capital	<u>4,730,981</u>
Net income	12,091,742
Retained Earnings – Beginning of Year	<u>600,357,168</u>
Retained Earnings – End of Year	<u><u>\$ 612,448,910</u></u>

The accompanying notes are an integral part of the financial statements.



**City and County of Honolulu  
Sewer Fund**

**Statement of Cash Flows  
For the Year Ended June 30, 2001**

---

**Cash Flows from Operating Activities:**

Operating income	\$ 24,042,904
Adjustments to reconcile operating income to net cash provided by operating activities –	
Depreciation expense	22,024,583
Other expenses	(181,667)
Increase in accounts receivable	(178,434)
Increase in due from other City funds	(3,940,358)
Decrease in materials and supplies	5,888,739
Increase in trade accounts and checks payables	2,659,391
Increase in other liabilities	188,279
Net cash provided by operating activities	<u>50,503,437</u>

**Cash Flows from Noncapital Financing Activities:**

Operating transfers out	<u>(6,120,000)</u>
Net cash used in noncapital financing activities	<u>(6,120,000)</u>

**Cash Flows from Capital and Related Financing Activities:**

Purchase of fixed assets	(64,815,349)
Proceeds from issuance of bonds and notes	4,907,342
Principal payments – bonds and notes	(13,493,959)
Interest paid – bonds and notes	(21,272,562)
Net cash used in capital and related financing activities	<u>(94,674,528)</u>

**Cash Flows from Investing Activities:**

Purchase of investments	(394,295,252)
Proceeds from sale of investments	413,034,669
Interest received	8,062,779
Net cash provided by investing activities	<u>26,802,196</u>

<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(23,488,895)</b>
--	---------------------

<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>57,462,069</b>
---	-------------------

<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 33,973,174</b>
---	----------------------

The accompanying notes are an integral part of the financial statements.

# **City and County of Honolulu**

## **Sewer Fund**

### **Notes to the Financial Statements**

---

#### **1. Financial Reporting Entity**

A Sewer Fund was established in 1976 pursuant to Section 14-8.1 of the 1990 Revised Ordinances of the City and County of Honolulu to account for all monies received pursuant to the provisions of the Federal Water Pollution Control Act amendments of 1972 and the Hawaii Revised Statutes and expended for the purposes authorized (operations of the City's wastewater system). The fund was operated primarily through user charges. The City and County of Honolulu (the "City") also established the Sewer Revenue Bond Improvement Fund to account for the proceeds of revenue bonds issued to pay all or part of those appropriations for improvements, repairs, and maintenance of the wastewater treatment system.

In conjunction with the November 1998 City Resolution 98-193, CD1, authorizing the issuance of the Wastewater System Revenue Bonds for the Wastewater System, a new Sewer Fund was established effective July 1, 1999 as an enterprise fund. The new Sewer Fund combines the operations of the Sewer and Sewer Revenue Bond Improvement Funds, which were previously recorded in a special revenue fund and certain capital projects funds. Accordingly, various account balances, including cash and fixed assets, net of related debt, were transferred into the new Sewer Fund (the "Fund").

The accompanying financial statements present only the activities of the Sewer Fund and do not include other organizations, activities and functions of the City. Accordingly, the accompanying financial statements are not intended to present fairly the financial position of the City and the results of operations and cash flows of the City's proprietary funds.

#### **2. Summary of Significant Accounting Policies**

##### **Basis of Accounting**

The Sewer Fund is maintained using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when goods or services have been received or a liability has been incurred at year-end.

Accounting for the Fund follows all applicable pronouncements prescribed by the Governmental Accounting Standards Board ("GASB") as well as pronouncements of the Financial Accounting Standards Board and its predecessor standard setting body, the Accounting Principles Board, that were issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# City and County of Honolulu

## Sewer Fund

### Notes to the Financial Statements

---

#### **Cash and Cash Equivalents**

Cash includes amounts in demand and time deposits primarily with various financial institutions in Hawaii. Cash on deposit with financial institutions is collateralized in accordance with State statutes. Investments with maturity of three months or less when purchased are considered cash equivalents.

#### **Investments**

Investments consist of U.S. government securities and are stated at cost, which approximates fair value.

#### **Property, Plant and Equipment**

Property, plant and equipment, including infrastructure (sewer system, network of pipes and sewer mains) are capitalized at cost. Interest cost is capitalized as part of the cost of acquiring certain assets when the effect of such capitalization is material to the financial statements. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<b>Years</b>
Buildings and improvements other than buildings	10-50
Transmission and distribution system	13-50
Equipment and machinery	3-20

Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in results of operations.

Normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Betterments are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

#### **Inventories of Materials and Supplies**

Inventories of materials and supplies are stated at weighted average cost. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

Since physical inventories of materials and supplies were not conducted at June 30, 2001, the City was unable to determine the inventories of materials and supplies in the Sewer Fund at June 30, 2001 and related materials and supplies expense for the year then ended. However, the City plans to perform a physical inventory of the materials and supplies in fiscal 2002.

#### **Receivables**

Sewer service charge revenues are accrued by the City based on estimated billings for services provided through the end of the current fiscal year. Estimated unbilled sewer charges amounted to approximately \$10.8 million at June 30, 2001.

# **City and County of Honolulu**

## **Sewer Fund**

### **Notes to the Financial Statements**

---

#### **Contributed Capital**

Contributed capital represents assets transferred from or constructed utilizing contributions from governmental sources and recorded at cost on the date placed in service.

#### **Retained Earnings**

Reservations of retained earnings represents amounts set aside for debt service as required by the City resolution establishing the Sewer Fund. In general, the reserved balance represents the maximum debt service payments due in any given fiscal year for each series of revenue bonds issued.

#### **Retirement Plan Contributions**

The City's contribution to the Employee's Retirement System of the State of Hawaii (see Note 8) is based upon actuarial computations and is comprised of the normal cost plus a level annual payment required to amortize an unfunded actuarial accrued liability over the remaining period of 19 years from July 1, 1997. The City is required by State statute to fund the actuarially determined pension contribution requirement annually.

#### **Deferred Compensation Plan**

All full-time employees of the Fund are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Program (Plan), adopted pursuant to Internal Revenue Code Section 457. The plan permits eligible employees to defer a portion of their salary until future years by contributing to a fund managed by a plan administrator. The deferred compensation amounts are not available to employees until termination, retirement, death or unforeseeable emergency.

A trust fund (annuity contract) was established to protect plan assets from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Deferred compensation plan assets are not reported in the financial statements.

It is the opinion of the City's legal counsel that the Fund has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

#### **Compensated Absences**

Vacation benefits accrue at one and three-quarters working days for each month. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. At June 30, 2001, accrued vacation amounted to approximately \$5.4 million.

Sick leave accumulates at the rate of one and three-quarters working days for each month, without limit. Sick leave is taken only in the event of illness and is not convertible to pay; accordingly, sick leave is not accrued. Employees who retire or leave government service in good standing with sixty or more unused sick leave days are entitled to an additional service credit in the retirement system. At June 30, 2001, accumulated sick leave, including vested and nonvested accumulated rights to receive sick leave benefits, amounted to \$15.5 million.

# City and County of Honolulu

## Sewer Fund

### Notes to the Financial Statements

---

#### Operating Transfers

Operating transfers include authorized transfers of resources from the fund legally required to receive them to the Sewer Fund through which such resources are to be expended.

#### New Accounting Pronouncements

In June 1999, the GASB issued Statement No. 34, "*Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments*," which establishes financial reporting standards and that the basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis; basic financial statements, including government-wide financial statements, fund financial statements and notes to the financial statements; and required supplementary information. Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities.

In June 2001, the GASB issued Statement No. 37, "*Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*," and No. 38, "*Certain Financial Statement Note Disclosures*," to be implemented simultaneously with Statement No. 34. Statement No. 37 amends Statement No. 34, which includes management's discussion and analysis requirements, adoption of the modified approach for previously depreciated infrastructure assets, program revenue classifications, major fund reporting requirements, elimination of the requirement to capitalize construction-period interest for governmental activities, and modification of the minimum level of detail required for business-type activities. Statement No. 38 also modifies Statement No. 34 by establishing and modifying disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

The City will implement Statements No. 34, 37 and 38 in conjunction with the City's implementation in the fiscal year ending June 30, 2002. Management has not yet determined the effect of the implementation of these Statements to the Fund's financial statements.

### 3. Accounting Changes

On July 1, 2000, the Fund adopted GASB Statement No. 33 (GASB 33), "*Accounting and Financial Reporting for Nonexchange Transactions*." This statement establishes accounting and financial reporting standards over the recording of nonexchange transactions involving cash and financial and capital resources. As a result of the adoption of GASB 33, contributed capital is included as a separate line item in the statement of revenues, expenses and retained earnings. Prior to the adoption of GASB 33, contributed capital was reported as an equity transaction.

# City and County of Honolulu

## Sewer Fund

### Notes to the Financial Statements

The City restated prior year financial statements to retroactively apply GASB 33. The adoption of GASB 33 resulted in the combination of two equity accounts, contributed capital and retained earnings, and an increase in operating transfers.

	2000
Net income, as previously reported	\$ 36,592,862
Capital contributions	555,687,973
Transfers	8,076,333
Net income, as restated	<u>600,357,168</u>
Retained earnings:	
Beginning of year, as previously reported	-
End of year, as restated	<u>\$ 600,357,168</u>

Capital contributions represented the transfers into the Sewer Fund at July 1, 1999:

Fixed assets, net	\$ 433,840,532
Infrastructure, net	466,783,708
Long term debt	(498,810,294)
Cash	147,980,821
Reserve for debt service	38,038,611
Other	<u>(32,145,405)</u>
Total contributed capital	<u>\$ 555,687,973</u>

Assets that were contributed to the Sewer Fund upon its formation were valued at their estimated cost less accumulated depreciation as of the transfer date that would have been recorded had the assets been initially recorded in this enterprise fund. Cash contributed represents the cash balances of the former Sewer and Sewer Revenue Bond Improvement funds at June 30, 1999.

#### 4. Cash and Investments

The cash and investments balances reported in the accompanying balance sheets are included in the City's cash and investment pool that is used by substantially all of the City's funds. Information pertaining to bank and investment balances and classification of risk is available for only the total cash and investment pool. These balances were fully insured or collateralized with securities by the City's agent in the City's name.

# City and County of Honolulu

## Sewer Fund

### Notes to the Financial Statements

---

#### 5. Due From Other City Funds

Due from other City funds consists primarily of bond proceeds relating to bond issuances for the Sewer Fund held by the City's General Improvement Bond Fund of \$4.8 million at June 30, 2001.

#### 6. Property, Plant and Equipment

At June 30, 2001, property, plant and equipment consisted of the following:

Land	\$ 80,930,415
Buildings and improvements other than buildings	335,350,842
Transmission and distribution system	470,943,297 ✓
Equipment and machinery	22,418,011 ✓
	<u>909,642,565</u>
Less accumulated depreciation	(45,313,788)
	<u>864,328,777</u>
Construction work in progress	114,929,178
	<u><u>\$ 979,257,955</u></u>

#### 7. Long-Term Debt

The City issues general obligation bonds for the construction of major capital facilities. The Sewer Fund's general obligation bonds are collateralized by or expected to be paid from sewer charge revenues received. These instruments are a direct obligation of the City for which its full faith and credit is pledged. The general obligation bonds for the Sewer Fund were issued during fiscal year 1992 through fiscal year 1998 in the original amount totaling \$410.2 million and maturing serially through fiscal year 2029. The general obligation bonds bear interest at rates ranging from 4.54% to 6.25% at June 30, 2001.

Wastewater system revenue bonds were issued in two series during fiscal year 1999, in the original aggregate amount of \$319.5 million. Both series are subject to redemption, at the option of the City, on or after July 1, 2009. The bonds bear interest at 4.99% to 5.05% at June 30, 2001 and mature at various dates through fiscal year 2029. The revenue bonds are collateralized by the fund's revenues.

#### Other Long-Term Debt

The notes payable to the Hawaii state government are for the construction of necessary treatment works and for other projects intended for wastewater reclamation or waste management. The notes amounted to \$68.8 million at June 30, 2001, bear interest ranging from 2.1% to 3.0%, and require annual principal and interest payments through fiscal year 2019.

# City and County of Honolulu

## Sewer Fund

### Notes to the Financial Statements

At June 30, 2001, the approximate maturities for general obligation bonds, revenue bonds and notes payable were as follows:

Year ending June 30,	General Obligation Bonds	Revenue Bonds	Notes Payable
2002	\$ 9,938,120	\$ 1,010,000	\$ 4,171,384
2003	9,855,590	1,050,000	4,271,892
2004	9,776,284	1,095,000	4,374,454
2005	9,692,027	1,140,000	4,480,694
2006	9,612,770	1,185,000	4,588,377
Thereafter	38,481,540	313,972,890	46,943,175
	<u>87,356,331</u>	<u>319,452,890</u>	<u>68,829,976</u>
Less: current portion	<u>9,938,120</u>	<u>1,010,000</u>	<u>4,171,384</u>
	<u>\$ 77,418,211</u>	<u>\$ 318,442,890</u>	<u>\$ 64,658,592</u>

## 8. Employee Benefit Plans

### Defined Benefit Pension Plans

**Plan Description** – All full-time employees of the City are eligible to participate in the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit pension plan. The ERS was established by Chapter 88 of the Hawaii Revised Statutes (HRS) and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.



## **City and County of Honolulu Sewer Fund**

### **Notes to the Financial Statements**

---

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to create a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. Both plans provide death and disability benefits and cost-of-living increases. In the contributory plan, employees may elect normal retirement at age 55 with 5 or 10 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% or 2.5% of their average final salary, as defined for each year of credited service with certain limitations. Benefits fully vest on reaching 5 years of service; retirement benefits are reduced for early retirement. In the noncontributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching 10 years of service; retirement benefits are reduced for early retirement.

The ERS issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

**Funding Policy** – All funding requirements are established by Chapter 88, HRS, and can be amended by the State legislature. Covered contributory plan employees are required to contribute 7.8% or 12.2% of their salary to the plan; the City is required to contribute the remaining amounts necessary to pay contributory plan benefits when due. The City is also required to contribute all amounts necessary to pay noncontributory benefits when due. The City's contribution requirements are actuarially determined based on actuarial assumptions established by Chapter 88, HRS. The Sewer Fund's contribution to the ERS for the fiscal year ended June 30, 2001 was \$196,000, which was equal to the required contributions for the year.

#### **Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State of Hawaii Public Employees Health Fund provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired City employees. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. Prior to July 1, 1996, the City paid for 100% of these benefits for employees who have at least 10 years of service. According to Act 217, SLH 1995, employees hired after June 30, 1996 with 25 years or more of service receive 100% employer funding. The City's share of the cost of these benefits is prorated for employees with less than 25 years of service. The City also reimburses 100% of Medicare expenses for retirees and qualified dependents (through the State) who are at least 65 years of age and have at least 10 years of service. Currently, approximately 9,036 retirees and qualified dependents are receiving post

# **City and County of Honolulu**

## **Sewer Fund**

### **Notes to the Financial Statements**

---

retirement health care and benefits paid for by the City. The City's contributions for post retirement benefits, which are funded as accrued, amounted to \$29.0 million for the fiscal year ended June 30, 2001. Separate information for the Sewer Fund is not available.

#### **Early Retirement Incentive**

Act 212 of the 1994 regular session of the State legislature authorized an early retirement incentive to state and county employees with at least 25 years of service as of December 31, 1994. Qualifying employees received two additional years of service credits for purposes of calculating their retirement benefits. 571 City employees received early retirement benefits, which cost the City \$7.5 million in payouts for accrued vacation during fiscal 1995. Act 216 of the 2000 regular session of the State legislature changed the funding period for the cost of the early retirement incentive bonus from 5 years to 19 years retroactive to June 30, 1997. Based on the per-employee analysis of additional retirement contributions calculated by the ERS, the additional retirement contribution, including interest, to be paid by the City is \$9.9 million at June 30, 2001. Separate information for the Sewer Fund is not available.

#### **9. Management Agreement**

The City and County of Honolulu has an agreement with the Board of Water Supply (the "Board") to provide certain services through June 30, 2004 relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately \$100,000 per year through fiscal 2003. The fees for 2004 are subject to negotiation.

#### **10. Commitments and Contingencies**

The City has contractual commitments for the Sewer Fund of approximately \$92.7 million at June 30, 2001, primarily for construction contracts.

#### **Litigation**

The City is a party to various legal proceedings arising in the normal course of business. Some of these matters relate to the Sewer Fund as follows:

#### **Clean Water Act**

In 1991, the EPA filed an administrative action against the City alleging violations of the Clean Water Act and conditions and limitations of the National Pollutant Discharge Elimination System Permits by failing to develop and administer pretreatment programs for all of its treatment plants and for unauthorized discharges from the collection system. As a result of a settlement reached between the EPA and the City, a consent decree has been filed which requires certain compliance actions and penalties of \$1.2 million, which were paid in fiscal year 1995. The City has implemented certain compliance actions such as developing rehabilitation and maintenance of the collection system and implementation of the plans. The City has committed to spend at least \$20 million for effluent reuse.

## City and County of Honolulu Sewer Fund

### Notes to the Financial Statements

---

In July 2000, the City entered into a Water Reclamation Facility Sale Agreement and Assignment of Water Reclamation Facility Agreement (the Sale Agreement) with a third-party contractor and the Board of Water Supply, a semi-autonomous agency of the City that has full authority to manage, control and operate the City's water system. This Agreement resulted from the City's requirement to beneficially reuse at least 10 mgd of municipal effluent.

The City has also committed to spend at least \$10 million for sludge reuse. Sludge reuse is being accomplished through the U.S. Navy Biosolids Treatment Facility. The cost to the City is \$82 per wet ton of sludge delivered to the facility; currently, the City is delivering an average of 7.2 dry tons (20.1 wet tons) a day. The consent decree cites potential stipulated penalties of \$2,000 per day per violation for failure to comply.

The State and certain environmental groups (nonprofit organizations) also filed actions against the City for declaratory judgment, injunctive relief and civil penalties for violations of the Clean Water Act for the Honouliuli, Kailua and Kaneohe wastewater treatment plants for failing to meet the secondary treatment requirements and for operating the Wahiawa wastewater treatment plan without a permit.

**Honouliuli** – The City was cited for numerous bypass events from the Honouliuli plant in December 1989. Effluent limits are being met and the City is operating under an administrative extension of the old permit. The Environmental Services Department is working with the State Department of Health and has closed out the Consent Order as of February 1999.

The City was cited and fined \$174,000 for exceeding the limit on the ground water use permit at the Honouliuli plant in June 1997. On May 20, 1998, the State Commission on Water Resource Management withdrew its notice of violation without prejudice, subject to the City providing quarterly reports, which indicate the progress made on the effluent reuse project. If the reports are not submitted, the fine may be reinstated by the State.

**Kailua and Kaneohe** – As a result of a settlement reached between the parties, a consent decree has been filed for the Kailua and Kaneohe plants, which requires certain compliance actions such as developing a facilities plan, constructing a feasible ultraviolet disinfection facility and establishing and supporting an advisory council. The conceptual facilities plan and the environmental impact statement preparation notice were completed in September 1998. The design phase of the ultraviolet disinfection project was completed in October 1998. Responses to public comments were completed in June 1999. The City contracted a construction company to complete the construction phase for approximately \$2.3 million, which was completed in November 2000. Approximately \$2.3 million has been paid as of June 30, 2001, related to these compliance actions. The Kailua Bay Advisory Council was established in October 1995. The City established a \$2.1 million trust fund; hired a program administrator and a third party to provide watershed mapping services; awarded grant projects to four community groups; developed short-term implementation plans for erosion control initiatives, stream bank restoration and refuse control; and developed a web site for the Kailua Bay Advisory Council to disseminate information to the public.

## **City and County of Honolulu Sewer Fund**

### **Notes to the Financial Statements**

---

The consent decree cites total costs of at least \$7.4 million for capital improvements, consulting and other fees. The consent decree cites stipulated penalties of \$500 per day per violation for failure to meet the specified obligations and deadlines. The City has not been assessed any penalties, as the specified obligations and deadlines were met during 1999. The Kaneohe treatment facility has been converted into a temporary treatment facility.

**Wahiawa** – A civil action was filed by the State for operating the Wahiawa plant without a permit. Settlement with the State was reached and a consent decree was approved on February 27, 1998. The consent decree requires the City to upgrade the existing treatment plant to produce water suitable for reuse and adjust the outfall. The consent decree cites stipulates damages of \$600,000 plus \$1,000 – \$5,000 per day if the upgrades are not completed by February 27, 2001. The City obtained an extension for the completion of the construction until June 30, 2001.

On June 6, 2001, the City completed construction of the reclamation system, which amounted to \$9.2 million. The City accepted the facilities related to the consent decree in July 2001. A motion to terminate the consent decree has not been filed by the State or City.

**Whitmore Village** – The State issued a notice of violation and order for exceeding biological oxygen demand and total suspended solid limits at various times from May to December 1992. The case is pending review and a ruling has not been made. The State may impose penalties not to exceed \$10,000 per day per violation. Potential fines could approximate \$1.5 million. The City has terminated the treatment and disposal of wastewater at this facility in March 1994.

**Kahuku** – The State issued a notice of apparent violation resulting from discharge of chlorinated secondary filtered effluent from an effluent pipe break at the Kahuku Wastewater Treatment Plant onto private property. The City has not been assessed any penalties, however, \$350,000 in costs were incurred to construct a new line.

Although the outcome of individual matters is not predictable, no provision for any liability that may result from these lawsuits has been made in the Sewer Fund's financial statements since any such liabilities are normally paid from the City's General Fund. In the opinion of management, the final outcome of these matters is unknown at this time but should not have a material adverse effect on the Sewer Fund's financial statements.